



Dean K. Matsuura  
Manager  
Regulatory Affairs

February 3, 2009

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PUBLIC UTILITIES  
COMMISSION  
FILED

The Honorable Chairman and Members of the  
Hawaii Public Utilities Commission  
Kekuanaoa Building, 1st Floor  
465 South King Street  
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2008-0274 – Decoupling Proceeding  
Corrections to the HECO Companies' Revenue Decoupling Proposal

Enclosed for filing are revised pages to the HECO Companies' Revenue Decoupling Proposal filed on January 30, 2009.<sup>1</sup> The revised pages include corrections and changes for minor grammatical, typographical and citation errors and provide two missing pages. The following is a list of the corrections and changes:

1. Revision of pages 12, 14, 15, 17, 19, 20, 21, 23, 24, 29, 31, 38, and 40 and Attachment 3;
2. Addition of pages 2 and 3 of WP 1;
3. Switching of attachment numbers for Attachments 1 and 2;<sup>2</sup> and
4. Addition of Attachment 1 "Confidential Information" insertion sheet for the non-confidential/public copy of the Proposal (which supersedes the "Confidential Information" insertion sheet for Attachments 2-3).

The HECO Companies apologize for needing to make these corrections.

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<sup>1</sup> The "HECO Companies" are Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Ltd.

<sup>2</sup> The new Attachment 1 also includes certain non-substantive corrections.

The Honorable Chairman and Members of the  
Hawaii Public Utilities Commission  
February 3, 2009  
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If you have any questions in this matter, please call me at 543-4622.

Very truly yours,



Dean K. Matsuura  
Manager, Regulatory Affairs

Enclosures

cc: Division of Consumer Advocacy  
Life of the Land  
Hawaii Renewable Energy Alliance  
Haiku Design and Analysis  
Hawaii Holdings, LLC dba First Wind Hawaii  
Department of Business, Economic Development, and Tourism  
Hawaii Solar Energy Association  
Blue Planet Foundation



adjustment for post-test years be based on a hybrid model, i.e., the methodology to calculate the change in O&M expenses is formulaic and differs from the forecast methodology that is used to calculate the change in rate base.

Specifically, the Companies' current preference is that the O&M RAM escalate O&M labor and nonlabor expense components by the growth in forecasted utility cost indices from Global Insight, Inc. ("Global Insight") and that the rate base RAM escalate rate base by the HECO Companies' individual historical trended growth in rate base plus significant plant additions from their capital budget forecast.

The hybrid RAM is just one of a number of RAMs that could have been selected for further discussion. However, the hybrid RAM is the only mechanism that meets the HCEI Agreement criteria, which includes a mechanism based on cost tracking indices such as those used by the California regulators, not based on customer count, and providing revenue adjustments for the differences between the amount determined in the last rate case and the current cost of operating the utility and the return on and return of ongoing capital investment. Nevertheless, HECO requested that PEG explore all significant forms of RAM including:

- Revenue per Customer ("RPC") freeze,
- Inflation Relief Only, and
- Hybrid used by SCE

PEG was asked to: 1) review and survey the various RAMs that have been and are in use by other utilities, particularly including those used by the California electric

to a simulated revenue requirement calculated as above but using actual O&M costs rather than O&M costs derived using the RAM.

PEG expressed the comparison in two ways: the average difference in revenue requirement dollars and in a ratio of the average target revenue requirement versus the simulated revenue requirement. Since the only difference between the two annual revenue requirement calculations was the application of the O&M cost RAM, the simulations measure the financial impact of the RAM. When the ratio of the revenue requirements is less than 1.000, it means that the O&M RAM failed to achieve the allowed rate of return on rate base under the assumptions made in the simulations.

PEG also concludes that the growth in O&M costs is equal to the growth in input prices, less the increase in productivity, plus the growth in output. Output is often measured by the number of customers. Therefore, the resulting equation for the growth in O&M costs is:

$$\text{growth Cost}^{\text{O\&M}} = \text{growth Input Prices}^{\text{O\&M}} - \text{trend Productivity}^{\text{O\&M}} + \text{growth Customers}.$$

All significant forms of RAMs are subsets of this overall model for the growth in O&M expenses.

For example, the Revenue per Customer Freeze adjusts revenues by the growth in the number of customers. This RAM equates growth in revenue for growth in cost and further assumes that the growth in input prices is equal to the growth in productivity. As further discussed by PEG this assumption is generally unreasonable. Productivity is likely well below the growth in input prices, and the Revenue per Customer Freeze is likely to be uncompensatory for the utility.

Another example is the Inflation Only RAM that applies an inflation factor to O&M expenses. In this case, the RAM assumes that the growth in customers is equal to

the growth in productivity. This may be reasonable in some cases, but applying a productivity factor without considering the growth in customers, or vice versa, does not have a reasonable economic premise and is likely to be unfair to either the utility or its customers.

In analyzing the results of its financial sufficiency simulations, PEG found that the Revenue Per Customer Freeze RAM approach was the most non-compensatory of the methods studied. Furthermore, the Revenue Per Customer Freeze approach was dependent on customer growth. The PEG Customer Input Price Index Hybrid approach (which uses escalators for O&M expenses and plant addition budgets based on a mix of forecasting and/or indexing as a basis for determining the return component of the RAM) is the closest to the SCE hybrid RAM and was more compensatory than the Inflation-Only approach. Based on these results and the terms of the HCEI Agreement regarding the revenue adjustment mechanism, the Companies further examined the hybrid approach. More details are available in PEGs report in Attachment 1.

Besides general indices such as consumer price index (“CPI-U<sub>Honolulu</sub>”) and U.S. gross domestic product price index (“GDPPI”), HECO sought to use industry-specific indices in the hybrid RAM. The Companies decided to use Global Insight indices because projected electric utility cost indices were available from Global Insight and the Global Insight series of indices are also used by SCE and approved by the California PUC. Attachment 4 includes the selected Global Insight indices used in the Companies’ hybrid RAM simulations.

The Hybrid I (PEG Custom Input Price Index) and Hybrid II (PEG 3-Category Decomposition) approaches required the identification of three employee classes (clerical, executive management, and professional). Since this identification would necessitate a significant amount of resources to develop the data for the HECO Companies, these two approaches also were not considered further. The Hybrid VI (Global Insight's Summary Electric Utility Materials and Services Price Index [JETOTALMS] RAM is simple, but the weights used for labor and nonlabor component of O&M costs do not represent the HECO Companies' share of the costs. Hybrid VII (HECO's 12-Category Decomposition) approach, discussed in more detail below, was thus chosen as the preferred RAM approach to escalate O&M expenses between rate cases.

This approach produced the least average revenue shortfall for the Companies in total, as shown in the following table.

**Table 1. Historical Financial Sufficiency of Selected Hybrid RAMs**

O&M RAM Alternative	Result*
1. Hybrid IV (GDPPI)	0.989
2. Hybrid V (CPI-U <sub>Honolulu</sub> )	0.989
3. Hybrid VI (Global Insight's Summary Electric Utility Materials and Services Price Index [JETOTALMS])	0.994
4. <u>Preferred</u> : Hybrid VII (HECO's 12-Category Composition)	0.996

\* Ratio of target vs. simulated revenue requirements. (See prior discussion of financial sufficiency simulations.)

The disadvantage of the preferred (Hybrid VII) approach is that it requires nine separate Global Insight indices to estimate twelve categories of O&M expenses for the

		Global Insight Cost Index	
	Expenses	for Salaries & Wages (Labor) <sup>6</sup>	for Other O&M NonLabor) <sup>7</sup>
1	Production	Electric Power, Generation, & T&D (CEU4422110008)	Steam Production (JEFOMMS)
2	Transmission	Electric Power, Generation, & T&D (CEU4422110008)	Transmission (JETOMMS)
3	Distribution	Electric Power, Generation, & T&D(CEU4422110008)	Distribution (JEDOMMS)
4	Customer Accounts	Utility Service Workers (CEU4422000008)	Customer Accounts (JECAOMS)
5	Customer Service	Utility Service Workers (CEU4422000008)	Customer Service (JECSIOMS)
6	Admin & General	Managers & Administrators (ECIPWMBFNS)	A&G (JEADGOMMS)

The fuel, purchased power, pension, and OPEB expenses that were removed earlier are then added back to the escalated amounts, then summed and “grossed up” for revenue taxes, as calculated for the 2009 test year, producing a new revenue requirement for 2010. The change between the newly-calculated 2010 revenue requirement and the test year revenue requirement is the estimated 2010 RAM. The calculation for the 2011 RAM is performed in the same manner as described, except using the 2010 calculated revenue requirement as its base.

Attachments 5B and 5C provide similar calculations for MECO and HELCO using the latest MECO and HELCO 2009 budget numbers.

The calculated O&M expense RAM adjustments to revenue requirements (in \$ million), based on the impact of using the Global Insight cost indices for O&M expenses and the methodology as noted above, are as follows:

Company	2010	2011	2012	2013
HECO	\$6.1M	\$5.4M	N/A	N/A

<sup>6</sup> See Attachment 4-Global Insight, Power Planner, Third Quarter 2008, pages 48 and 60

<sup>7</sup> Ibid.

MECO	\$1.6M	\$1.4M	\$1.6M	\$1.7M
HELCO	\$1.5M	\$1.3M	\$1.5M	\$1.6M

Expressed as a percent of total base year revenue requirements<sup>8</sup>, the O&M expense RAM impacts are show below:

Company	2010	2011	2012	2013
HECO	0.31%	0.28%	N/A	N/A
MECO	0.33%	0.29%	0.33%	0.35%
HELCO	0.29%	0.26%	0.29%	0.31%

In reviewing the preliminary calculations as reflected on Attachment 5A, the 2010 growth rate of labor expenses for HECO over the 2009 test year is estimated as 3.82%. This aligns reasonably well with HECO's union contract with Local 1260 of the International Brotherhood of Electrical Workers that reflects an across-the-board 4.25% increase in wages for all union workers<sup>9</sup> and HECO's budget assumption of 3% growth in merit salaries. The 2010 growth rate in non-labor expenses (without fuel and purchase power expenses) is calculated as 1.4% and total labor and non-labor expenses' growth rate is calculated as 2.26%, higher than the most recent 2010 GDPPI and CPI-U forecasts of 0.9% and 1.9%, respectively. MECO and HELCO both show very similar results for years 2010 and 2011. For years 2012 and 2013, both companies show labor expenses to grow at approximately 2.75% and 3.0%, respectively, and nonlabor expenses are forecasted to experience growth rates of approximately 1.6% and 1.8%. Thus, total O&M expenses without fuel and purchase power are forecasted to grow at approximately 2.1% for 2012 and 2013.

<sup>8</sup> HECO's 2009 test year revenue requirements = \$1,967 million, MECO's 2009 estimated revenue requirements = \$487 million, HELCO's 2009 estimated revenue requirements = \$510 million.

<sup>9</sup> See Attachment 6-Amendment to Agreement between Hawaiian Electric Company, Inc. and Local 1260 of the International Brotherhood of Electrical Workers, Exhibit A, Classification and Wage Rates, effective November 1, 2007, pages 44-54.

Attachments 5A, 5B, and 5C are illustrative of the procedure that would be used to develop the RAM O&M expenses. For example, the actual 2010 RAM O&M expenses that will be calculated to adjust customers' rates (see Revenue Decoupling Proposal, Sales Decoupling subsection on page 8) will be based on the 2009 test year revenue requirements as approved by the Commission in its Interim or Final Orders in the 2009 test year rate cases and the most recent Global Insight O&M expense forecasts available at that time. So the 2010 RAM O&M expenses would be estimated based on the forecasted indices in the Third Quarter 2009 issue of the Global Insight Power Planner that should be available in October 2009. The following post-test year RAM estimates of O&M expenses will follow the same procedure, i.e., the RAM O&M expenses will be estimated using the indices that are the most recently forecasted prior to the commencement of the RAM implementation year, applied to the approved test year expense amounts. So the actual RAM for O&M expenses that the Companies will receive will not be known until a few months prior to the year that it will be implemented.

#### RAM Calculation for Capital Costs

The 2010 RAM adjustments to revenue requirements for the HECO Companies' capital costs are based on the differences between the calculation of 2010 operating income (return), which is the product of the projected 2010 average rate base and the authorized rate of return on rate base ("RORB") as approved by the Commission in the 2009 test year rate cases, and changes in depreciation expense and income taxes. As PEG notes in Attachment 1 at 20: "The index logic used to establish O&M budgets in hybrid RAMs is less useful --- and rarely used --- in establishing capex budgets". Capex

- 3) Estimated average rate bases calculated using results of regression analyses of the growth of the “normalized” average rate bases (i.e., without “significant projects”), then adding the rate base impact of the forecasted significant projects.

Further discussion of these approaches is provided below.

#### Forecasted Average Rate Base

The HECO Companies’ forecasts of end of year and average rate bases are provided in Attachments 7A, B, and C which contain confidential information and are subject to the Protective Order approved and filed on January 6, 2009 in this proceeding. Also, depreciation expenses are estimated for the post-test year periods based on the forecasted growth rate of the average rate bases. To calculate the RAM adjustment for HECO, the proposed cost of capital, calculated income tax factors, and revenue tax factors developed for the 2009 test year were used. For MECO and HELCO, the RORB, income tax factor, and revenue tax factors approved by the Commission in the interim decision and orders issued in their last rate cases<sup>10</sup> are used to develop the RAMs for the capital costs during the post-test years. The estimated RAM impacts based on the Companies’ forecasts are as follows:

Company	2010	2011	2012	2013
HECO	\$26.2M	\$15.5M	N/A	N/A
MECO	\$1.5M	-\$0.2M	-\$0.7M	-\$3.1M
HELCO	\$12.5M	\$1.4M	-\$1.5M	-\$1.2M

<sup>10</sup> In the Interim Decision and Order No. 23926 issued on December 21, 2007 by the PUC in MECO’s 2007 test year rate case, the Commission accepted a rate of return on rate base of 8.67% for the purpose of the interim award. In the Interim Decision and Order No. 23342 issued on April 4, 2007 by the PUC in HELCO’s 2006 test year rate case, Docket No. 05-0315, the Commission accepted a return on rate base of 8.33% for the purpose of the interim award.

Expressed as a percent of total base year revenue requirements, the rate base

RAM impacts are show below:

Company	2010	2011	2012	2013
HECO	1.33%	0.79%	N/A	N/A
MECO	0.31%	-0.04%	-0.14%	-0.63%
HELCO	2.45%	0.28%	-0.29%	-0.24%

The calculations for the above estimates are provided as Attachments 8A, B, and C. Based on this methodology, the estimated RAM amounts are positive for all the Companies in 2010, then declining into the future. The decline is due primarily to the inability of the engineers to forecast individual projects out that far in time rather than a forecast or trend of what the rate bases level will be in the future.

#### Trended Average Rate Base

The regression analyses for the HECO Companies to estimate the annual increase in each company's respective average rate base are provided in Attachments 9A, B, and C. The results of the analysis are highly significant for all three companies (99% significance level). Based on these results, the analyses estimate that the average rate bases of HECO, MECO, and HELCO will increase by \$30,637,815, \$10,447,094, and \$13,016,430, respectively. Based on these regression results and the same assumptions noted above for the RAM calculation based on the forecasted rate base, the RAM estimates for the post-test year are as follows:

Company	2010	2011	2012	2013
HECO	\$6.3M	\$6.3M	N/A	N/A
MECO	\$2.3M	\$2.3M	\$2.3M	\$2.3M
HELCO	\$2.8M	\$2.8M	\$2.8M	\$2.8M

base that will result if the HECO Companies' significant projects are completed on schedule.

Company	2010	2011	2012	2013
HECO-Trended Average RB	\$1,350M	\$1,365M	NA	NA
Add: Significant Projects	\$86.2M	\$90.8M	NA	NA
Adjusted Average RB	\$1,436M	\$1,456M	NA	NA
MECO-Trended Average RB	\$407.0M	\$411.6M	\$416.2M	\$420.8M
Add: Significant Projects	\$0.0	\$0.0	\$0.0	\$0.0
Adjusted Average RB	\$407.0M	\$411.6M	\$416.2M	\$420.8M
HELCO-Trended Average RB	\$436.4M	\$439.9M	\$443.3M	\$446.8M
Add: Significant Projects	\$43.8M	\$42.4M	\$41.0M	\$39.6M
Adjusted Average RB	\$480.2M	\$482.3M	\$484.3M	\$486.4M

Based on the table above, the calculated RAMs are as follows:

Company	2010	2011	2012	2013
HECO	\$8.3M	\$4.1M	N/A	N/A
MECO	\$1.0M	\$1.0M	\$1.0M	\$1.0M
HELCO	\$12.8M	\$0.5M	\$0.5M	\$0.5M

Expressed as a percent of total base year revenue requirements, the rate base RAM impacts are show below:

Company	2010	2011	2012	2013
HECO	0.42%	0.21%	N/A	N/A
MECO	0.21%	0.21%	0.21%	0.21%
HELCO	2.51%	0.10%	0.10%	0.10%

The amounts above are the estimated RAMs associated with the first two methods of dealing with significant projects where only half of the significant projects' capital costs are reflected in the year that they are placed in service (see Attachments 15A1. B.1, and C.1).

calculated by the regression analyses. Because of the large impact associated with the actual completion dates of the significant projects, the HECO Companies propose that the calculated RAM adjustments associated with these projects be reflected as a target revenue in the RBA upon the actual completion of the project, based on the third method described above. Thus, until a significant project is completed, there is no RAM included as a target revenue amount in the RBA and charged to customers. The RAM associated with the significant projects is reflected in Attachments 15A.2, B.1, and C.1

Based on the above analyses, the HECO Companies propose that the development of the RAM be based on significant projects full cost approach.

## THE DECOUPLING AND RAM PROCESS

### Revenue Balancing Accounts

As discussed in the meeting between the Companies and the Consumer Advocate on December 16 and 17, 2008, the Companies will request the establishment of revenue balancing accounts (“RBAs”) to record the monthly differences between the approved interim revenue requirement for electric sales revenues<sup>14</sup> in their 2009 test year rate cases and the electric sales revenues recorded (the comparison will be made with revenues for fuel and purchased power expenses removed). In its 2009 rate case (Docket No. 2008-0083), Rate Case Update, HECO T-1, pages 8-11, HECO proposed the establishment of an RBA to be implemented upon the issuance of an interim order by the Commission. A detailed description of the RBA, which was included in the Rate Case Update, is submitted as Attachment 2 to this proposal. The HECO Companies propose

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<sup>14</sup> The allocation of the revenue requirements to the remaining months in the year will be specified in the Companies’ tariffs. The allocation will be based on the mWh sales forecast during the period that the target revenue requirement remains in effect.

ON-GOING REVIEW OF REVENUE DECOUPLING

Sales decoupling and revenue adjustment mechanisms have been used in many jurisdictions without major difficulties (see PEG's report). The HECO Companies maintain that they have used the lessons learned from some of these jurisdictions to reduce the possibility of problems in implementation. However, there may still be concerns by the Commission and Consumer Advocate regarding the risk of unintended consequences resulting from the move to a new ratemaking regime in Hawaii. To reduce this risk, the Companies are proposing to implement a number of "exit ramps", which provide the Commission, the Consumer Advocate, and the Companies the ability to review the performance of revenue decoupling and take steps to correct, suspend, or terminate the mechanism.

A number of review provisions are included in the HCEI Agreement. They include the following:

2. The parties agree that the decoupling mechanism that will be implemented will be subject to review and approval by the PUC.
4. The Commission may review the decoupling mechanism at any time if it determines that the mechanism is not operating in the interests of the ratepayers.
5. The utility or the Consumer Advocate may also file a request to review the impact of the decoupling mechanism.
6. The Commission may unilaterally discontinue the decoupling mechanism if it finds that the public interest requires such action.

The HECO Companies propose to adopt all of the above HCEI Agreement review provisions. The Companies propose that this decoupling docket remain open for two years following the Commission's final decision and order. Utility or Consumer Advocate requests to review the impact of the decoupling mechanism could then be filed under this docket. The review request should include the basis for the request, supporting

The HECO Companies have not proposed an earnings sharing mechanism, but would be willing to consider one if it operated symmetrically both above and below a baseline and was fair to both customers and shareholders of the Companies.

### SUMMARY

Revenue decoupling supports energy efficiency and customer-sited renewable generation, initiatives that have broad community support due to their positive impacts on oil independence, energy self-sufficiency, and energy security. Revenue decoupling also provides the electric utilities with the financial ability to preserve a stable electric grid to minimize disruption to service quality and reliability and retain the capacity to invest in infrastructure necessary to achieve an independent renewable energy future.

Major stakeholders, including the Governor of the State of Hawaii, the Division of Consumer Advocacy of the State of Hawaii Department of Commerce and Consumer Affairs, and the HECO Companies signed the landmark HCEI Agreement in October 2008 committing to support revenue decoupling because of its significant potential contribution to the public benefit and to support the need for a financially sound electric utility that is necessary to achieve the system reliability objectives and independent renewable future.

The HECO Companies have proposed revenue decoupling with two components: sales decoupling and a RAM. The sales decoupling mechanism breaks the link between sales and revenue, while the RAM provides the utilities the opportunity to recover its costs between rate cases to maintain their financial health. This hybrid approach to the

**Confidential Information Deleted  
Pursuant To Protective Order, Filed on  
January 6, 2009.**

DOCKET NO. 2008-0274  
ATTACHMENT 1  
(REVISED 2/3/09)

Attachment 1 contains confidential information and is provided subject to  
the Protective Order filed on January 6, 2009 in this proceeding.

RATE CASE UPDATE  
DOCKET NO. 2008-0083  
HECO T-1  
ATTACHMENT 1  
PAGE 1 OF 4

The HCEI Agreement addresses decoupling from sales for all HECO Companies (see pages 32 and 33). The HCEI Agreement identifies two mechanisms that together combine to implement decoupling from sales:

1. Revenue decoupling: “The revenues of the utility will be fully decoupled from sales/revenues beginning with the interim decision in the 2009 Hawaiian Electric Company Rate Case (most likely in the summer of 2009).”<sup>1</sup>
2. Revenue adjustment mechanism (a mechanism to adjust utility rates for trends in input prices, demand, and other external business conditions that affect utility earnings):  
“The utility will use a revenue adjustment mechanism based on cost tracking indices such as those used by the California regulators for their larger utilities or its equivalent and not based on customer count. Such a decoupling mechanism would, on an ongoing basis, provide revenue adjustments for the differences between the amount determined in the last rate case and:
  - (a) The current cost of operating the utility that is deemed reasonable and approved by the PUC;
  - (b) Return on and return of ongoing capital investment (excluding those projects included in the Clean Energy Infrastructure Surcharge); and
  - (c) Any changes in State or federal tax rates.”<sup>2</sup>

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<sup>1</sup> HCEI Agreement, page 33.

<sup>2</sup> HCEI Agreement, page 33.

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On October 24, 2008, the Commission issued an Order Initiating Investigation and opened Docket No. 2008-0274 (“Decoupling Docket”) to examine implementing a decoupling mechanism for the HECO Companies. The Order required that the HECO Companies and the Consumer Advocate submit to the Commission a joint proposal on decoupling that addresses all of the factors identified in the HCEI agreement within 60 days.<sup>3</sup>

In meetings between the Consumer Advocate and HECO, it was agreed that HECO would initiate the revenue decoupling mechanism upon receipt of an interim order in the HECO 2009 rate case by proposing to establish a revenue balancing account (“RBA”) in its HECO 2009 rate case update.

The RBA proposed by HECO would remove the linkage between electric revenues and sales immediately upon the approval of an interim rate increase in the HECO 2009 rate case as follows:

1. The target base revenue for the remainder of 2009 (assuming that interim approval is received in 2009) would be the revenue requirement approved by the Commission in the interim decision adjusted for the revenue requirements for fuel and purchased power. This revenue would be allocated by month and prorated within the month of the issuance of the interim order.
2. The RBA would accumulate the monthly difference between actual recorded electric revenues and the target revenues, both adjusted for revenue requirements for fuel and

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<sup>3</sup> Subsequently, in its December 3, 2008 Order in this docket, the Commission extended the deadline for the joint proposal to February 17, 2009.

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purchased power for the period between the date of interim rate relief and the effective date of final rates.

3. The proposed RBA will also reflect the accrual of interest at the rate of the then-approved rate of return applied to the simple average of the beginning and ending balance in the balancing account each month.
4. On the effective date of the final rates (approved in the final decision and order for this rate case) the RBA would begin to accumulate the monthly difference between actual recorded electric sales revenues and the final approved target revenue, both adjusted for the revenue requirements of fuel and purchased power.
5. It is anticipated that HECO will also establish a process with Commission approval that would allow the recovery/refund of any under/over collection of electric sales revenues as reflected in the RBA. An example of such a process is as follows:
  - a. On November 30, 2009, HECO would notify the Commission and the Consumer Advocate of: 1) the estimated year-end balance in the RBA based on the October 31, 2009 balance and the forecasted charges/credits to the RBA, including interest, for November and December 2009; and 2) the tariff rates that reflect the inclusion of the estimated recovery/refund of the estimated year-end RBA balance
  - b. Based on the assumption that the Commission would have approved a revenue adjustment mechanism ("RAM"), the new rates would also reflect the new revenue requirement developed by the RAM, to be effective on January 1, 2010.

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ATTACHMENT 1  
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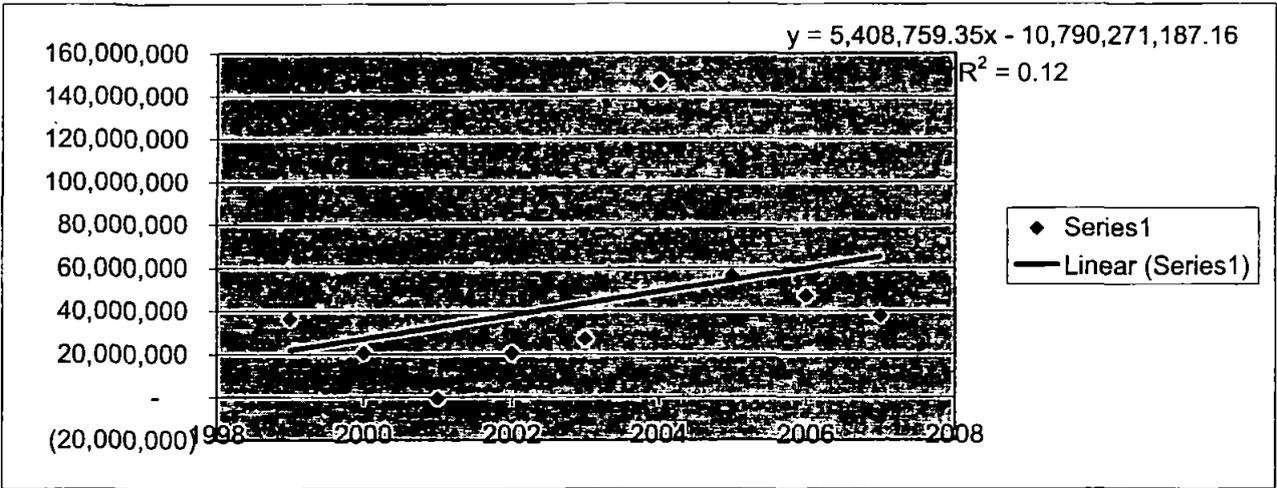
It is HECO's intention that a RAM will be further discussed in a proposal submitted in the Decoupling Docket. HECO also intends that the proposal will include provisions agreed upon between the Consumer Advocate and HECO that will outline the scope and timing for additional work on the RAM. In the Decoupling Docket, the proposal for the RAM will be submitted and reviewed per the procedural schedule to be approved by the Commission.

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HELCO Plant Adds Regression

HELCO Plant Additions \$

1999	36,510,417
2000	20,633,304
2001	(891,047)
2002	20,415,078
2003	27,098,050
2004	146,577,115
2005	56,083,130
2006	46,995,534
2007	37,842,537



HELCO Plant

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.351935015
R Square	0.123858255
Adjusted R Sq	-0.001304852
Standard Error	42116179.95
Observations	9

ANOVA

	df	SS	MS	F	Significance F
Regression	1	1.75528E+15	1.75528E+15	0.98957479	0.352981702
Residual	7	1.24164E+16	1.77377E+15		
Total	8	1.41717E+16			

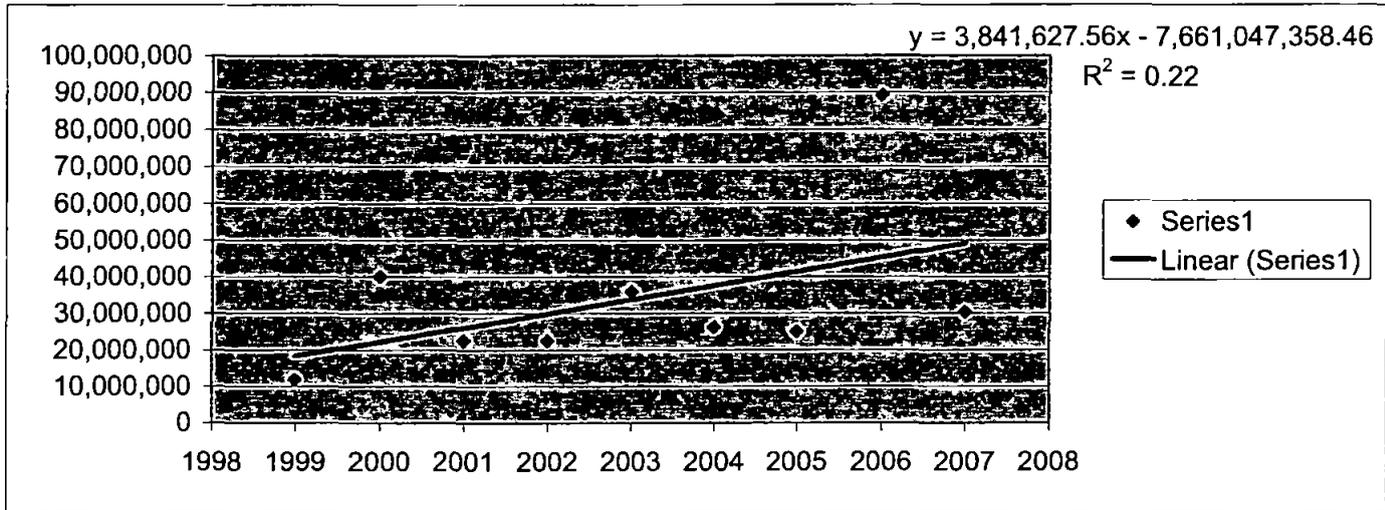
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-10790271187	10890671479	-0.990781074	0.354796818	-36542617075	14962074700	-36542617075	14962074700
X Variable 1	5408759.35	5437175.452	0.994773738	0.352981702	-7448117.58	18265636.28	-7448117.58	18265636.28

MECO Plant Adds Regression

MECO Plant

Additions \$

1999	11,842,461
2000	40,008,764
2001	22,512,836
2002	22,441,968
2003	35,969,243
2004	26,224,313
2005	24,940,743
2006	89,358,407
2007	30,295,102



MECO Plant

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.469525158
R Square	0.220453874
Adjusted R Sq	0.109090142
Standard Error	21149685.07
Observations	9

ANOVA

	df	SS	MS	F	Significance F
Regression	1	8.85486E+14	8.85486E+14	1.979584104	0.202248472
Residual	7	3.13116E+15	4.47309E+14		
Total	8	4.01665E+15			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-7661047358	5469020986	-1.400807819	0.204009435	-20593227011	5271132294	-20593227011	5271132294
X Variable 1	3841627.562	2730412.602	1.406976938	0.202248472	-2614772.292	10298027.42	-2614772.292	10298027.42